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DEVELOPING AN AMERICAN CONSENSUS

A REPORT

TO THE

UNITED STATES SENATE

BY

SENATOR HOWARD H. BAKER, JR.

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LETTER OF TRANSMITTAL

UNITED STATES SENATE,
March 5, 1982.

THE PRESIDENT OF THE SENATE,
United States Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Between the 2nd and the 14th of January, I led a Senate delegation to Panama, Peru, Argentina, Chile and Mexico. I, Senator Ernest Hollings and Senator Paul Laxalt comprised the delegation.

The purpose of the delegation was to acquire an overview of the situation in the Western Hemisphere. We were particularly interested in the perspectives of Latin American countries on unfolding events in Central America and the degree to which a consensus can be developed among all the Americas on policies relevant to that region. We explored as well our bilateral relationships, and the progress of economic and political development in each of the countries visited.

On the 7th of January, Senator Laxalt traveled to Montevideo, Uruguay, and visited with President Gregorio Alvarez and other members of his Government. Senator Laxalt's observations based on his visit to Uruguay are attached as an annex and provide a valuable and insightful addition to this report.

I should also note that during the delegation's visit in Mexico, we were joined by Senator Alan Simpson who was independently there to explore United States-Mexican bilateral issues, primarily with respect to migrant labor and other binational immigration issues. Because of his expertise on these issues as Chairman of the Judiciary Subcommittee on Immigration and Refugee Policy, the delegation has not attempted to cover in this report those issues of special interest to Senator Simpson.

I would like to express the delegation's appreciation for the efforts of Ambassador Moss in Panama, Ambassador Ortiz in Peru, Ambassador Schlaudeman in Argentina, Ambassador Landau in Chile and Ambassador Gavin in Mexico. In addition, the embassy staffs in each country should be commended for their special efforts to ensure an interesting, successful and productive trip.

HOWARD H. BAKER, JR.,
Senate Majority Leader.

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OVERVIEW

The delegation's trip occurred against a backdrop of events and circumstances that seemed to portend more problems than promise for the peaceful and prosperous development of the Western Hemisphere. Nowhere is this more true than Central America. The countries in the region are struggling economically and some are on the verge of bankruptcy. Failing economies and commensurate failures to meet rising popular expectations of an improved standard of living have left many of the peoples of Central America susceptible to the beguiling promises of revolutionary leftists. The government of Fidel Castro has continued to demonstrate its willingness to exploit this situation.

Nicaragua, which might have become a model for social and economic development in Central America, has chosen instead the Cuban model of repression and continuing revolution. In lieu of economic development and democratic reform, Nicaragua has allowed itself to become the platform for the spread of "Cuban democracy" and arms throughout the region. As compensation, Nicaragua has received the arms to equip a standing army far in excess of that needed for legitimate defense; its people have received 6,000 Cuban teachers to explain why the revolution that brought them yet another dictatorship, the deprivation of political and social freedom, a large standing army and no rise in the standard of living has been a resounding success. The efforts of the United States to cooperate in an alternative course of action have been rebuffed, and while the offer remains outstanding, there seems little hope of acceptance.

Meanwhile, in El Salvador, the struggle continues in the Government's efforts to defeat Cuban inspired and supplied leftist revolutionaries. In Guatemala, Cuban assistance to the left channeled through Nicaragua is increasing with a commensurate rise in the levels of violence and terrorism. The evidence of the infiltration of Cuban-trained extremists has increased and there are indications that Cuban aims for Honduras have evolved from using it as a conduit to Guatemala and El Salvador to establishing a revolutionary structure for use against the Honduran Government. Similar signs are present south of Nicaragua in Costa Rica, and traditionally democratic Costa Rica views with concern the build-up of the Nicaraguan military.

Against this backdrop of increasing violence and insurrection, the delegation was continually reminded that little of it would be possible without the direct support of Soviet military and financial assistance to Cuba.

It should be noted as well that the region is not entirely without promising developments. Elections were held in Honduras in December and the new government was installed in February. Elections were held in Costa Rica in February and while the threat to the democratic

process cannot be discounted, at least some Central American nations seem determined to make the process succeed. Elections are scheduled in El Salvador on March 28 for a constituent assembly, which could be the first step toward the building of a truly democratic process in that country.

Moreover, mindful that meaningful economic opportunity remains the best and most effective guarantor of political freedom and stability, the United States remains committed to the economic development of the entire Caribbean Basin. With the cooperation of the more developed nations in the region, the United States will attempt to institute a major program to stimulate trade, investment and financial assistance with and among the nations of the Caribbean Basin.

These were the regional concerns discussed at each of the stops on the delegation's itinerary. Each country, of course, had its own set of problems, promises and perspectives against which the visit occurred. In differing degrees and with differing prospects, each shared the economic problems common to the hemisphere. Finally, while the trip was not designed with this in mind, the bilateral relationship of the United States with each country visited has undergone and promises to continue a trend of marked improvement.

With all this in mind, the delegation traveled with the purpose and intent of first, assessing the degree of consensus that might be generated in the hemisphere with respect to the threat posed against it, now most evident in Central America; secondly, to assess the problems and prospects for political and economic development in each country; and finally, to assess the state of our bilateral relationship, and to reaffirm the importance to the United States of each relationship.

PANAMA

Sunday, January 3

1930—Embassy dinner with Panamanian officials, U.S. and Panamanian businessmen, bankers and political party leaders

Monday, January 4

0900—Country Team Briefing
1030—U.S. Southern Command Briefing
1230—Panama Canal Commission luncheon
1430—Panama Canal Commission
1530—Tour Panama Canal
1630—Panamanian Newspaper Editors
1830—President Aristides Royo, Vice President de la Espriella and Foreign Minister Illueca
1930—Dinner with President Royo

Introduction

Ratification of the Panama Canal Treaties in 1978 marked the beginning of a new era in the relations of the United States with Panama and for that matter with the entire hemisphere. Particularly in light of the controversy surrounding the passage of the Treaties, the delegation was most interested in discovering whether the Treaties had in fact resulted in an improved working relationship with Panama without at the same time diminishing the efficiency of the operation and maintenance of the Canal.

The delegation hoped as well to explore with Panamanian officials developments in the Central American region. Historically, Panama has maintained a consistent "non-aligned" posture on the preponderance of international issues. The posture has included in the past a close relationship with the Cuban Government and a close personal relationship between Panamanian and Cuban leadership. Yet Panama, as a stable and relatively prosperous member of the Central American community, has much to lose if the situation in the region continues to deteriorate. The delegation was most interested in exploring and assessing the degree to which that perception was shared by Panamanian leadership.

Finally, the delegation was interested in Panama as a country in transition. During the course of offering the Panama Canal Treaties to the people of Panama for approval by referendum, General Torrijos made three specific commitments: restoration of political parties in the democratic process, a free press, and the return of political exiles. At least ostensibly, General Torrijos kept those commitments. In October of 1978, General Torrijos' special title as supreme leader was allowed to expire, and Aristides Royo became nominal head of state as President. Although there is little doubt that ultimate power in

Panama remained in the hands of Torrijos as the Commander of the Guardia Nacional, political activity had resumed and direct elections of the President are scheduled for 1984.

In July of 1981, Omar Torrijos was killed in a plane crash. The delegation was interested in the degree to which the government of President Royo remains committed to the continued restoration of the democratic process and the degree to which the present leadership of the Guardia Nacional supports that commitment.

I. PANAMA AND THE UNITED STATES

The focal point of our relationship with Panama remains the Panama Canal. Despite nearly seven decades of operation, the Canal remains an essential linchpin to the free and unfettered flow of world commerce and critical to the security and economic well-being of the United States. October of 1981 marked the passage of 2 years of the Canal's operation under the new regime established by the Panama Canal Treaties. In the judgment of both United States and Panamanian officials, those 2 years have been extraordinarily successful.

Measured statistically, there were in 1981 almost 14,000 ocean-going transits carrying a record cargo of 170 million long tons. That number exceeded by one per day the transits in 1980, also a highly successful year. Financially, the Canal is operating at no cost to the taxpayer and all the cost of operating and maintaining the Canal, including significant capital improvements authorized in 1980, are being covered by revenues.

More importantly, the institutions established by the Treaties to manage and maintain the Canal are functioning as designed, both in the day to day operations of the Canal and planning for the future. Under the leadership of Panama Canal Commission Administrator Dennis P. McAuliffe and Deputy Administrator Fernando Manfredo, both parties to the Treaties seem determined to make them work. That is not to say that the initial years have been entirely without difficulty. President Royo, for instance, has spoken publicly in Panama and at the United Nations to voice Panamanian dissatisfaction with certain provisions of Public Law 96–70, the legislation passed to implement the Treaties.

Panamanians complain that provisions of Public Law 96–70 are in violation of provisions of the Treaties, particularly in areas of labor wages and benefits, Panamanian participation in Canal operation, representation, and certain jurisdictional responsibilities. The United States maintains that no provision of Public Law 96–70 prohibits full implementation of the Treaties and that differences of opinion between the two governments, inevitable in the implementation of legal documents of such complex nature as the Treaties, should be resolved in the existing institutional structure established for that purpose. Negotiations on these issues are in fact continuing and in our discussions with the Panamanian leadership the problems were alluded to in only the most general sense.

Finally, the delegation would observe that President Royo, a negotiator of the Treaties, has shown remarkable sensitivity and understanding in their implementation. Other Panamanian officials emphasized that such irritants as there are should not distract from the fundamen-

tal fact that the Treaties are working, that the United States and Panama have established a friendly and cooperative relationship, and that the interests of both Parties are being protected.

Two major challenges, considered broadly, are just over the horizon for the Commission. The first relates to the capacity of the Canal to handle the ever-increasing numbers of ships desiring transit and as well the increased size of those ships. Today the Canal is experiencing a level of traffic of approximately 38 transits a day, the maximum number of transits that can be accommodated without congestion. Over 50 percent of those transits are by ships with a beam in excess of 80 feet, a percentage that is expected to increase with each succeeding year. To alleviate the congestion caused by the increasing numbers and size of ships requesting transit, the Commission has initiated a number of capital improvements that will increase the transit capacity to 42–44 transits per day by late 1983. Other improvements are planned to achieve a capacity of 50 vessels per day by the early 1990's.

Despite all the improvements planned or possible within the existing physical structure of the present-day Canal, at some point in the 1990's demand will exceed the capacity of the Canal. For that reason, studies envisioned in the Panama Canal Treaties are underway to develop the most realistic alternative to the present-day Canal. Options that will be considered by these studies include an entirely new sea-level Canal; a second set of locks with increased capacity for the existing Canal; as well as other alternatives that would use the existing Canal in conjunction with other developments which would take advantage of the geographical advantages of the Panamanian isthmus as a trans-shipment point between the oceans. The delegation was informed that the Japanese Government is most interested in participating in these efforts along with Panama and the United States.

The second challenge, and one that will be felt in the more immediate future, is that of competitiveness. In November of 1982, trans-Panama oil pipeline will be completed, which will allow much of the oil that is now being shipped through the Canal to bypass the Canal completely. This will result in a decrease in Canal revenues of approximately $45 million and a consequent rise in tolls. The increasing size of vessels and commensurate economies of going around South America rather than through the Canal, increasing use of transcontinental U.S. rail shipments—the so-called "mini-bridge"—and the expected use of such alternatives as the trans-Panamanian pipeline for oil and possibly even a coal slurry line for the trans-shipment of coal, will place increasing pressures on the competitiveness of the Canal. The Commission is acutely sensitive to the need to keep the price of transit through the Canal at a level the market will bear.

The delegation suggested that since the Government of Panama would benefit economically by revenues raised by the oil pipeline, it could as well absorb the Canal's loss of revenues by decreased Treaty payments. Officials of the Panama Canal Commission acknowledged that the suggestion had been made to Panama.

II. PANAMA AND THE REGION

The second issue of concern and equally the focus of discussions with both United States and Panamanian officials is the security of the

region. It should be noted at the outset that Soviet involvement in the region is multi-dimensional, well-coordinated and persistent. It ranges from the purely political presence—the development of orthodox Communist parties and the infiltration of labor organizations; to a significant economic presence with trade agreements, development projects and arms sales throughout Central and South America; to a military presence, not only in Cuba, but in Nicaragua and Grenada. Moreover, Radio Moscow effectively targets the entire of Latin America and in Panama alone, Soviet bloc countries grant 1,000 scholarships to Panamanian students annually (in contrast, the United States partially funded 8–10 scholarships to Panamanian students in 1981). As Assistant Secretary of State Enders said in his August testimony before the Senate Foreign Relations Committee, "in Latin America we are fighting a covert war."

The stakes obviously are high. Not only is there a capability now in Cuba and potentially in Nicaragua and Grenada to threaten U.S. military forces in the continental United States and in Panama and, by extension, the operation of the Canal, but the threat contains as well a growing capability politically to intimidate the countries of Latin America. Without a strong United States response and without the cooperation of the countries in Central and South America, a predictable outcome of the covert war would include the loss of secure sealines of communication in the Gulf of Mexico and the Caribbean Sea, loss or jeopardy of regional petroleum reserves, and certainly the loss of United States prestige and credibility in the region.

The growing threat to the region and more specifically to Panama and the Canal is, in varying degrees, acknowledged by Panamanian officials. Traditionally more conservative on international issues, the Panamanian military appears to be more concerned about the threat than is the civilian leadership. Because of that concern, and perhaps impressed by the so-called final offensive in El Salvador in January 1981 that demonstrated the seriousness of the situation and the pervasiveness of external support of training for the insurgents, the United States Southern Command has had in the last year much-improved relations with the Guardia Nacional. The Combined Board established by the Panama Canal Treaty has begun modest but improved efforts at joint defense planning. Joint training of United States and Panamanian forces, although still on a small scale, has become institutionalized. In all, there is a steadily improving trend in the degree of cooperation between the two forces. Moreover, and also in recognition of the threat, the Guardia Nacional is beginning to discuss significant increases in its force structure.

Although the military leadership is more concerned than the civilian leadership, that is not to say that political leaders are unaware that recent developments in Nicaragua and El Salvador could adversely affect the security of Panama. Still mindful of the close, personal relationship between General Torrijos and Fidel Castro and with a large Soviet and Cuban presence in Panama City, the Panamanian leadership has not completely translated its growing concern over the military build-up in Nicaragua to immediate concern over the Cuban involvement in that process.

Moreover, the government of President Royo would hope to maintain its neutralist and non-aligned tradition. Thus, it has followed a

middle-of-the-road position on El Salvador between support of the Duarte government and the French-Mexican position of a negotiated settlement. The Government of Panama, without endorsing the position of France and Mexico, has offered Panama as a possible site for the negotiations should they occur.

The delegation spoke at length with President Royo and other members of his government on the subject of security in Central America. The discussion covered the evolution of Cuban support of subversion in the region since 1978, our concern about the direction taken by the Sandinista government in Nicaragua and the military build-up in that country that bears no relation to a legitimate defense, and the potential threat posed to the region should the insurgency in El Salvador succeed.

The delegation emphasized repeatedly that while it was in the interest of the United States to oppose these developments, the likelihood of a successful resolution of the problems would be greatly enhanced if we were joined in a more meaningful way by the countries most immediately affected. The delegation noted that only if the countries most immediately affected began to speak out and accept joint responsibility for dealing with these dangers could we expect to succeed.

Without being more specific, the discussions in Panama left the delegation with the impression that there is a heightened sense of awareness of the character and origin of the threat posed to the region. There is, as well, a greater understanding that the goals of those instigating the subversion are not limited to the countries now in conflict. Finally, there would seem to be the beginnings of agreement that the countries in the region must accept joint responsibility for meeting the threat.

III. PANAMA—DOMESTIC CONCERNS

Economically, Panama is a bright spot in the hemisphere. Government policy has traditionally favored private capital investment, both foreign and domestic, and has maintained a liberal trade policy with no controls on the external flow of capital or repatriation of profits. For these reasons and because of its relatively stable political situation, the commercial climate in Panama is encouraging. It has, moreover, become a major banking center in the hemisphere with some 115 foreign banks managing an annual flow of $40 billion through Panama.

Despite this relative prosperity, Panama's economic future is not without problems. Large government expenditures in recent years, including funds for education, economic infrastructure, public sector investment and construction and the rising cost of oil since 1974 have all left Panama with large domestic and foreign debts. Debt service amounted to 31 percent of the fiscal year 1981 national current expenditures and investment budget and contributes to a continuing high rate of inflation.

Largely as a result of this large public sector investment in the Panamanian economy, Panama has a relatively large well-educated segment of its population with rising middle class aspirations and limited opportunity of fulfillment. Unemployment is currently running at an estimated, unofficial rate of 15 to 17 percent and 26,000 young Panamanians enter the work force annually. This is an economy that creates 12,000 new jobs each year and Panama would need to double that rate just to stay even. Although Panama's economy continues to

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grow at an annual rate of 5 percent, that growth is largely the result of service-oriented rather than labor intensive investment. Labor intensive activities, such as construction, have only barely returned to the pre-1974 levels of high growth.

The government is well aware of the problem and is also aware of the potentially significant political ramifications of growing under- and unemployment in a society with ever-rising expectations. President Royo advised the delegation that 1982 had been declared "The Year of Production," with specific efforts made in agricultural development and the generation of private foreign investment. In addition to expressing enthusiasm for the potential of the Caribbean Basin initiative, Royo and other officials spoke of legislation that would soon create a "one-stop" investment agency designed to cut through the red tape and eliminate the necessity of investors seeking the approval of a multiplicity of government agencies. They spoke approvingly, as well, of the possibilities of the U.S. proposal for a bilateral investment treaty, a model for which has recently been completed by the U.S. Special Trade Representative and will become a key element of the Caribbean Basin Initiative.

During the course of this discussion, President Royo and other members of his government acknowledged that Panama has spent a great deal of capital on "social investment," which had contributed heavily to the size of the public debt. The delegation was told, however, that bringing "schools, road and hospitals to the countryside and to the people" was an important element in guaranteeing the peace and stability of the country.

For the time being, it appears to have worked. Compared to the turmoil of the region or even Panama of 1977–78, Panama is an island of tranquility. The promises General Torrijos made during the national debate on the referendum approving the Panama Canal Treaties have been kept. There is freedom of the press; the exiles, most notably former President Arnulfo Arias, have returned; and, political parties are organized and active. The political party with traditionally the strongest support, the Panamanista Party, led by Arias, has not registered officially, but is expected to do so before the scheduled direct election of the President in 1984.

It remains, however, a situation worth watching. Panama has evidenced the positive beginnings of a country moving toward a truly democratic government. Since the death of Torrijos, the Guardia Nacional, which still retains ultimate power, has seemed little disposed to change that would subvert this process. Although the Guardia has stated that it will abide by the results of the elections in 1984, there are rumors that one of the Guardia colonels may run as the candidate of the Government Party. That, in and of itself, would not undermine the process, but it could complicate the creation of a publicly-held perception that the election will be (or was) fairly conducted. The delegation was told in emphatic terms that the elections must be real; the people of Panama, said a leader not associated with the government, will not tolerate a sham election in 1984.

Moreover, there is now public sentiment to the effect that for the elections to be truly meaningful in the restoration of civilian control of the government, there needs to be institutional changes that diminish the one-man control structure of the government.

ARGENTINA

Wednesday, January 6

0830—Country Team Briefing
0900—Foreign Minister Costa Mendez
1300—President Leopoldo Fortunato Galtieri, Minister of Economy Roberto Alemann
1600—Junta Member and Navy Commander Jorge Isaac Anaya
1700—Junta Member and Air Force Commander Lami Dozo
1900—Embassy reception with Argentine business, civic and religious leaders

Thursday, January 7

0900—Mothers of Plaza de Mayo
1030—Argentine Newspaper Editors
1400—Peronist Party officials
1900—U.S. Chamber of Commerce

Introduction

Argentina is a country rich in human and natural resources. It has one of the highest literacy rates in the hemisphere and is virtually self-sufficient in energy and agriculture. In the past, it has had a well-developed industrial base and retains a well-developed economic infrastructure. With these advantages, Argentina should be a model of prosperity. Why it is not and the prospects for improving its economic situation were matters of interest and inquiry for the delegation.

Much of the answer lies in Argentina's turbulent political history. During World War II, Juan Peron emerged through a military revolution and remained the dominant force in the political life of Argentina until 1955 when he too was overthrown by the military. Since 1955, Argentina has had a series of coups, counter coups, provisional governments, and popular elections.

Throughout this period, the dominant political force was the Peronist movement, but it was not until Peron was returned to the Presidency in 1973 that any elected President received the support of more than a third of the electorate. When he died in 1974, Vice President Isabel Peron presided over a country plagued by a deteriorating economy and increasingly violent terrorist activity. With fractured political support in her own party, and unable to deal successfully either with the economy or the terrorist Montenero movement, Mrs. Peron was ousted by the military in March of 1976. Argentina has since been ruled by junta, composed of the commanders in chief of the army, navy and air force.

The Junta came to power with the declared intent of dealing with the dual problems of terrorism and the economy. By 1976, violence had become endemic to Argentina—violence from the left represented primarily by the Montoneros was answered abundantly by violence from the right, including disparate elements of the military, until it had become indiscriminate and arbitrary. The government dealt with the problem, but at significant human cost. During the course of the government's campaign against terrorism, many citizens simply disappeared and civil and political rights were suspended. Although by 1980, disappearances had virtually ceased and the number of political prisoners had declined from over 8,000 (in 1977) to less than 650, the suppression of terrorism, or the "Dirty War" as it is called in Argentina, has left a legacy of many families bitter at the disappearance of relatives. Civil liberties and political activity are increasing but remain circumscribed.

The campaign against terrorism had the effect of severely souring the relationship between Argentina and the United States under the Carter Administration. With the gradual improvement of the situation in Argentina, and with the belief of the Reagan Administration that the United States could encourage further progress more effectively in the context of an improved bilateral relationship, the Administration proposed and the Congress agreed that restrictions on the sale of arms were no longer appropriate. The Administration has also reversed the policy of opposing loans to the Government of Argentina by international financial institutions.

The Junta has dealt less effectively with the economy. Years of Peronist populist programs of nationalized industries and redistribution of wealth had resulted in declining productivity, rampant inflation and great external debt. The military government's program was designed to reduce the government's role and restore a free market economy, and, in the process, expand exports, instill fiscal and monetary discipline, and stimulate domestic and foreign private investment.

Since 1976, that program has had some success, but it has been limited. By 1981, productivity had gradually increased but then declined again and the economy today remains mired in the combined effects of a deepening recession and accelerating inflation. With a history of recurrent economic crises and corrective policies that have failed to demonstrate predictability and stimulate investor confidence, Argentina has nevertheless remained a country with enormous economic potential in search of a rational economic program and popular political infrastructure.

In December of 1981, the junta removed from office the President, General Roberto Viola, and installed General Leopolds Galtieri, Commander and Chief of the Army and junta member. Although Viola's health was a factor in the change, the more credible reason was the junta's impatience with Viola's apparent inability to deal with the country's worsening economic problems.

It should be noted that in 1979, the military reaffirmed the Constitution of Argentina and indicated its intent to return the country to a popularly elected civilian government. They have promised legislation in 1982 that would govern the process of re-establishing the political system, including the legal resumption of political parties.

I. ARGENTINA AND THE UNITED STATES

In the years following the 1976 imposition of military government, the relationship between the United States and Argentina was difficult. The period is perhaps best illustrated by the passage in 1977 of the Humphrey-Kennedy amendment which restricted the sale of arms to Argentina because of repressive measures taken by the government during the "Dirty War."

The human rights situation in Argentina now is much improved. As a consequence, at the urging of the Reagan Administration, the Congress in 1981 repealed the Humphrey-Kennedy amendment, subject to a presidential certification that the human rights situation has improved and that sales would be in the national interest. Moreover, President Reagan and his Administration have evidenced their intent to put the difficult era behind us and embark on a new and more constructive relationship with Argentina. It was with this intent in mind that the delegation met with the officials of the Argentine Government. In each of the meetings, the delegation expressed the hope that relations between the two countries would continue to improve and noted, as well, the importance President Reagan places on stronger ties with countries in the Western Hemisphere.

It is the delegation's impression that the hope of an improved and stronger United States-Argentine relationship is broadly shared by President Galtieri's government. The delegation was told that Argentina wants to establish the closest possible relationship with the United States, and that in meeting the "common danger in the hemisphere," there must be a constant and fluid dialogue. Argentina, said one official, wants to be a partner and, as a partner, anticipates close consultation with the United States.

The delegation emphasized to Argentine officials that American public perceptions are important and that continued progress in human rights will contribute to the establishment of such a partnership.

It was clear to the delegation that the Argentine Government shares many of the perspectives of the United States on problems within and without the hemisphere. It was equally clear that there are limits on the degree to which Argentina can act in accordance with those shared perspectives. The Polish situation poses difficulties for Argentina because of its current overwhelming dependence on Soviet purchases of Argentine grain.

II. ARGENTINA AND THE REGION

The delegation discussed at length with President Galtieri and officials of his government the concern of the United States for peace and security in the Western Hemisphere. As might be expected, the focus of those concerns was Central America. In the view of the Argentine Government, the United States for too long ignored subversion in Central America and now it has reached the point of threatening the fundamental security of the entire hemisphere. The threat was described as externally organized and directed with the goal of "cutting the hemisphere in half." Once that is accomplished, subversion will spread south, and eventually pose a renewed threat in Argen-

tina. The delegation had the strong impression that Argentina, having suffered an assault of terrorism of a dimension that few other western societies have ever experienced, views the present situation in Central America as both past and, potentially, prelude for Argentina.

The delegation made the point that the Administration of President Reagan was determined to meet the threat to the hemisphere, but that there is a need for the active and visible support of other nations in the hemisphere so that United States actions are not perceived and misunderstood to be unilateral initiatives. In response, Argentine officials noted that they are already providing El Salvador with economic assistance and pledged full cooperation with the United States in Central America.

With respect to the political implications of grain sales to the Soviet Union, one high official noted that he did not want his country to be dependent on any single market, and suggested that the United States and Argentina make a concerted effort to discover means of reducing Argentina's one-market dependency. As one possibility, he suggested U.S. assistance in seeking to modify the agriculture policies of the European Economic Communities, particularly the Common Agricultural Policy (CAP), which he considered a principal factor in the problem.

The delegation expressed strongly the hope that the lingering and occasionally acute dispute with Chile over the Beagle Channel would soon be resolved. Government officials were forthright in their discussions on the issue, and professed commitment to an early, peaceful resolution of the problem. It seemed to the delegation that Argentine officials would like to see the issue closed and behind them. Nevertheless, there has been no recent progress in the mediation efforts of the Vatican, and Argentina has recently said it will not extend the 10-year-old agreement to submit the dispute to binding arbitration.

III. ARGENTINA—DOMESTIC CONCERNS

The government of President Galtieri was described as a group of "classic liberals," i.e., conservatives in the spectrum of Argentine politics. The delegation was told, however, that this is a critical moment in Argentine history. If this government cannot turn the economy around and convince the people that a free market economy is appropriate for Argentina, the chance will be, perhaps irretrievably, lost. The critical question for the moment is how long the Galtieri government has to turn the economy around.

President Galtieri seems determined to make his government a true test of the Liberal ideology, perhaps with the understanding that if it fails, the return of the Peronists-Populists is inevitable and will be that much more firmly entrenched as the only "way" for Argentina. However, in making it a true test, the President has certain advantages not shared by his predecessor. Principal among them is his retention of his position as the Commander-in-Chief of the Army. As both President and a member of the ruling junta, his power, compared to that of President Viola, to make and implement difficult decisions is greatly enhanced. Clearly, the magnitude of the problems requires difficult and politically unpopular decisions.

Second, President Galtieri has appointed as Minister of Economy Roberto Alemann and has apparently assured the Minister that he will enjoy the backing of the government in the measures necessary to restore the economy. Again, the key question is "how long will it take?"

Briefly described, Alemann's economic recovery program contains several key elements, all focused on minimizing the role of the government in the economy and reducing the fiscal deficit. Alemann intends to cut government expenditures, and it is of special political significance that he includes cuts in the defense budget and a freeze on wages in government-owned industries in this effort. He intends to privatize or denationalize state-owned enterprises, including, and again of political significance, such industries as oil, steel and transportation. Alemann emphasized to the delegation his admiration of the efforts of the Reagan Administration on deregulation and has personally introduced the word into the Spanish vocabulary. Alemann noted that he had called on the industrial and agricultural producer organizations to propose construction deregulation measures.

In taking these and other measures, Alemann is not only racing the clock, he is pushing against a variety of firmly ingrained Argentine traditions. The military, the labor unions, and the re-emerging political organizations all share the particular brand of nationalism unique to Argentina and will moreover individually oppose many of the government's proposals for a variety of self-interested motives. The magnitude of Alemann's difficulties is perhaps best illustrated by a remark made by a prominent Peronist politician. The politician, responding to the announced intention of the government to privatize state industries was widely quoted to the effect of "Let them. When we come back in, we will simply re-nationalize the industries." Such statements make it exceedingly difficult for the government to inspire the confidence of private investors who are essential to fulfill the goals of privatization and restoring the economy.

In any event, Alemann believes that the attempts to restore the economy of earlier military governments failed either because they did not go far enough or were inadequately and indecisively implemented. He is determined not to repeat those mistakes.

Two intriguing questions remain: What happens if Alemann's reforms fail; what happens if they succeed? If they fail, it would seem there are two possible courses of action, both premised on a steadily deteriorating economy and consent increasing domestic unrest. The first, and the delegation was told, the least likely, is that the military government will retrench and remain in power by means of repression that has been visited on Argentina in the past. The more likely result is that the military will tire of being identified with failure and, following another tradition of the past, simply throw the government, and its problems, back to the politicians.

Alternatively, if the economic reform measures succeed, or succeed in large part, what happens then? At the very least, the government as now constituted has bought time to deal with other forces at work in Argentina. The most important of these is the increasing pressure to return to civilian government. The government of President Galtieri plans for this to occur by an evolutionary process that will legally begin with legislation allowing, and regulating, the re-

sumption of political activity—a "Politictal Law" now being drafted. In fact, political activity has already begun with the tolerance of the government, and the government has consulted with leading political figures on the formulation of the Law. Although the military is committed, by a 1979 statement of principles, to a restoration of a democratic political system based on a number of large political parties, there is no firm timetable. For instance, although President Galtieri's term expires in 1984, the military is not committed to a popularly elected president in 1984.

Moreover, it is not clear that the formation of "larger political parties," a goal designed to overcome the Argentine tradition of minority governments, is possible. Although the Peronists are the most effective political force extant, and one Peronist official advised the delegation that his party would poll over 60 percent of the vote if an election were held now, there are additional important considerations. The first is the considerable doubt that the factionalized Peronists could coalesce behind any single candidate or set of candidates. No one, the delegation was told, has inherited Juan Peron's mantle, and there are a number of aspirants. Second, the "Political Law" will require internal party democracy, which may tear them apart. Finally, the Peronists are less a political party than a mass movement with a loosely held philosophy. Although they continue to press for an accelerated scheduled of elections, and argue that delay only increases the strength of the Peronists and more directly identified leftist parties, it is not at all clear that the politicians want to inherit now the severe economic difficulties of Argentina. It is even less clear that they have an alternative economic plan to offer the people of Argentina.

One final factor must be taken into account and that is the continuing political impact of the "disappeared." The delegation met with a number of family members of those who disappeared during the "Dirty War" of the 1970's. These families have formed an organization, the "Mothers of the Plaza de Mayo," which is both an effective and determined political force. They demand, above all else, an accounting—an explanation—for those who disappeared. It is unclear how full an accounting is possible, even with the total cooperation of the government. It is absolutely clear that voluntary cooperation will not be forthcoming and that the military will make every effort to ensure that it will never occur. The efforts of the military to guard against a future accounting and inevitable demand for retribution and the determination of the families for just that to occur, would in combination seem to have become an ironic impediment to the hoped for democratization of Argentina.

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CHILE

Friday, January 8

1100—Country Team Briefing
1200—General Augusto Pinochet Ugarte
1530—Acting Foreign Minister Sergio Covarrubias

Saturday, January 9

1930—Vice President of Chilean Human Rights Commission Maximo Pacheco

Introduction

Perhaps no country in the hemisphere over the past decade has been the subject of more intense and continued scrutiny in the United States than has Chile. Most of that scrutiny has been unfavorable and, unfortunately, much of it has been well-deserved.

It began in 1970 with the election of Salvador Allende, a Marxist and member of Chile's Socialist Party. Although elected with only a plurality of 36 percent of the vote and never in control of the Legislature, Allende embarked on a program of dramatic economic and social reform, including agrarian reform, government ownership of banks and key industries, and nationalization of foreign investment interests. By 1973, the Chilean economy was in chaos with inflation exceeding 600 percent, shortages of consumer goods and food, strikes, general unrest and massive demonstrations against the government. In a climate of increasing violence, the military in a popularly supported coup took over. In the process Allende died.

It is estimated that between 3,000 and 6,000 people died in the aftermath of the coup. Between 1973 and 1976, the military government severely repressed political activity, particularly that associated with the Allende government or the left in general, and tens of thousands were arrested for non-violent political reasons. Many were tortured, and over 650 of those arrested have never reappeared.

Although the government in 1976 apparently decided to halt the worst of the abuses of human rights, Chile became a prime example of the human rights policies of the Carter Administration. In addition to the human rights situation, the assassination of Orlando Letelier and Ronnie Moffit and the subsequent failure of the Chilean Government to investigate or prosecute the Chileans who were implicated in the assassination also severely strained relations between the two countries.

In recognition of an enhanced human rights situation and with a different approach, the Reagan Administration has attempted to strengthen its relations with Chile, while urging that an improved human rights situation there must continue. To that end, the

Administration has resumed Export-Import Bank financing of investments in Chile, approved invitations for the Chilean Navy to participate in the annual Unitas naval exercises, voted in favor of development bank loans, and renewed the exchange of visits by high government officials. The Administration also supported the repeal by Congress of the Humphrey-Kennedy amendment, which has been a primary irritant in the relationship over the past several years.

In 1980, the President and Chief of the Military Junta, Augusto Pinochet, submitted for the approval by the people of Chile a new Constitution. The Constitution, which was approved by a vote of 2 to 1, commits Chile to a gradual evolution toward civilian rule. Its provisions gave President Pinochet a formal term in office of 8 years until 1989 and provided that his successor will be selected by a single candidate (proposed by the Junta) plebiscite. The first contested Presidential election is scheduled for 1997 but could be held as early as 1990 if the plebiscite candidate is rejected. The first congressional election will occur in 1990 and formal political activity will remain suspended until 1989.

If political reform under President Pinochet has been gradual, economic reform has been dramatic, and, by and large, successful. Since 1975, Chile has made a determined effort to restructure the economy away from centralized planning and state ownership toward the controls of a free market and private enterprise. Although the initial shocks to the system were painful, the economy has grown by an average of 7 percent since 1976, inflation has fallen to 10 percent (from 600 percent in 1973), and its exports have been diversified away from the traditional dependence on copper. Although the Chilean economy is not problem free, particularly in the areas of trade balance and current accounts, it appears to be relatively healthy and the country seems better able than others in the region to weather the international recession.

I. CHILE AND THE UNITED STATES

The delegation was the first from the Senate to visit Chile since the overthrow of Allende in 1973. This visit appeared to be perceived, and the delegation was willing for it to be perceived, as one additional symbol of the improving United States-Chile relationship. Without exception, each official with whom the delegation met expressed satisfaction at the improvement of the relationship. Improving relations, said one official, will allow us to give preferential attention to the many common objectives that exist in the foreign policies of both countries.

The delegation concurs with the judgment. Strongly anti-Marxist and with its free trade, market oriented economic policies, the position of Chile on most international political and economic issues is remarkably parallel with that of the United States.

The delegation was also pleased to note that Chile is interested in resuming nuclear cooperation programs and indicated a willingness to consider acceptance of the Non-Proliferation Treaty (NPT) and full-scope safeguards on its nuclear facilities, and, as well, waving into force the Treaty of Tlatelolco.

The delegation emphasized to Chilean officials that while we share many common interests, there remain areas of disagreement that will continue to impede full development of the relationship. The delegation noted specifically the congressionally imposed requirement that

the President certify continued progress on human rights and the Letelier assassination case. A more complete discussion of the human rights situation follows, suffice to say here that Chilean officials discussed both issues fully and stated firmly their belief that Chile has met the requirements of the Presidential certification.

In conjunction with the requirements of the Presidential certification, it should be noted that shortly after the delegation's visit, the Supreme Court reversed lower court decisions on the one issue still pending in Chile on the Letelier case. The reversal has the effect of keeping alive the possibility of prosecution should evidence against those implicated be developed independently of that obtained by plea bargaining in the United States.

II. CHILE AND THE REGION

Chilean Government officials were emphatic in their discussion of the importance to western interests of the Southern Cone of South America. One official, in fact, asked the delegation to speculate on the strategic ramifications of having leftist governments in Chile, Argentina and Peru, should the Panama Canal ever be closed.

Chilean officials also impressed upon the delegation the adverse military balance in the Southern Cone that had arisen as a result of the Kennedy amendment. They noted that during the period when both Argentina and Chile were estranged from the United States, Argentina remained relatively advantaged vis-a-vis Chile because of its traditionally close ties with Europe and close bilateral relationship with the Soviet Union. In addition, Peru, Chile's other neighbor, was ruled by a leftist government with a direct and substantial military supply relationship with the Soviets. Although Chilean officials continue to believe that the Southern Cone military imbalance is destabilizing, they recognize and acknowledge that the refurbished political relationships of the three countries with the United States has a balancing and stabilizing effect on the region.

As recounted by Chilean officials, ownership of the islands of the Beagle Channel has been an issue of contention between Chile and Argentina for over 65 years. It is legally complicated and has over the years become further complicated by nationalism and pride. Toward the end of 1978, the two countries nearly went to war over the issue, and according to Chilean officials, provocations continue despite the mediation of the Pope.

The Government of Chile is anxious to resolve the dispute and conveys a sense of urgency in their hope that a way can be found to continue the mediation efforts of the Pope. Several officials noted that it was the only significant area of disagreement with Argentina and but for this issue, the two countries could exploit their traditional friendship in many areas of mutual benefit.

As in Argentina, the delegation stressed the importance to all countries in the hemisphere that the issue be peacefully resolved and not be allowed to remain an irritant and potential source of conflict. The delegation also advised the Chilean Government that the Government of Argentina seemed hopeful that this issue could be put to rest.

The situation in Central America was discussed at length with various Chilean officials. They were uniform in their belief that recent developments in Nicaragua represented a meaningful gain for the Soviet Union in the Western Hemisphere. It is, said one, an "extreme danger," as would be the collapse of the Government in El Salvador. That official also noted that Chile was providing aid to El Salvador and would be willing to provide military training as it had in the past.

In response to Chilean expressions of support for United States assistance to El Salvador, the delegation explored ways to develop an expanded hemispheric consensus as to the nature of the threat in Central America and the appropriate means of dealing with it. The delegation noted that while a number of countries seem to be willing for the United States to do more to prevent the collapse of El Salvador, it would seem more effective if such initiatives originated with a broad consensus among the countries of Latin America.

The Chileans acknowledged the necessity of caution to avoid the appearance of the United States intervening unilaterally in Central America. They also reminded the delegation that 24 countries had joined in condemning at the Organization of American States the French-Mexican initiative on El Salvador, and concluded that such efforts in the OAS and other international fora, economic and military assistance, and concerted diplomatic action were the most appropriate measures to take.

III. CHILE—DOMESTIC CONCERNS

Human rights in Chile remain an appropriate area of concern to the United States. Since 1979, the number of political arrests has averaged approximately 1,000 a year and instances of torture continue to be reported. The "state of emergency," which is regularly extended every 6 months, and certain interim provisions of the newly approved Constitution accord the executive extraordinary powers that include internal exile, arrest without judicial warrant, extended detention without charge in some cases, and restrictions on the rights of assembly and freedom of information. Specific instances of the government's arbitrary use of power in recent months have also been troubling: the refusal to allow the president of the Chilean Christian Democratic Party into the country, and the August 1981 expulsion of opposition political leaders, including the expulsion of the Chairman of the Chilean Human Rights Commission. Obviously, there is much room for improvement. On the other hand, the trend is in the direction of improvement, even if gradual, and has been over the past 4 years.

The delegation would, moreover, make several additional observations. First, there seems to be in Chile a general tolerance of the constitutionally sanctioned return to democracy in at what could at best be called "all deliberate speed." (The country's economic growth of the past few years probably contributes to that lack of impatience. Subsequent to the delegation's visit, however, a large opposition demonstration occurred in connection with the funeral of former President Eduardo Frei.) Second, some of the human rights abuses of the past 2 years can be attributed to an increased incidence of leftist (MIR) terrorism. Third, despite the Government's determination to reduce spending overall, it has made a conscious effort to increase social spend-

ing focused on improving the health, nutrition and education of the poorer elements of Chile's population.

It should be noted that the Constitution of 1980 seems to have imbued Chilean officials and citizens alike with the sense that Chile is governed by a rule of law. People are arrested for non-violent political offenses more because it is "against the law" than because of the whim of government abusing its power. One official matter-of-factly observed that "people are detained for breaking the law on political recess and they are tried by civilian courts."

The delegation wanted to be certain that the Chilean Government understood that while our tactics had changed, our concern for the fundamental principles of human rights remains unchanged. The delegation noted that the Reagan Administration believed that the pursuit of human rights was more effective in the context of a stronger relationship, but one in which both countries recognized that human rights was to be an issue in the relationship—whether in contention or in accord.

Chilean officials accept this position and acknowledge that it will be helpful. In the course of defending Chilean policies, they also insist that every country must be free to choose its own course. We accept fundamental human rights, said one, but we are a country in a transitional period—we are in the process of rebuilding this country. Starting with 1973 as a point of reference, he argued that economic and social freedoms have been restored and other freedoms are being returned as well, specifically in labor organizations and freedom of assembly. He said that political freedoms will come later.

The delegation took up the specific example of expulsion of the Chairman of the Chilean Human Rights Commission. An official explained that while the right of labor to organize locally has been restored, the government continued to forbid a national federation of unions because the federations would be controlled by Communists. Communist activists, he said, were trying to form federations and were receiving support from the Commission Chairman; thus, his expulsion. The delegation warned that it is difficult for Americans to distinguish between that situation and the formation of Solidarity in Poland. The official simply repeated that Chile needs economic and social development before the restoration of political freedoms. We will not, he said, repeat the experience of 1970–73.

PERU

Tuesday, January 5

1145—President Fernando Belaunde Terry, Foreign Minister Arias Stella, and other Government officials

Monday, January 11

0900—Country Team Briefing

1030—Ambassador Alfredo Ramos Suero, Director for Bilateral Political Affairs

1600—President Belaunde

1900—Embassy dinner with Prime Minister Ulloa, Foreign Minister Arias Stella, and other Government officials

INTRODUCTION

As are so many countries in the hemisphere, Peru is a country in transition. Unlike others, from the perspective of the United States, the direction of transition is clearly positive.

In 1980, after 12 years of leftist military rule, Peru held free elections. Fernando Belaunde, the President ousted by the military in 1968 and pro-western in his approach to foreign policy, was elected with an impressive percentage of the vote to a 5-year term. Moreover, unlike his pre-1968 tenure in office, his party controls both houses of Congress (one by coalition).

President Belaunde's predecessors left him with several significant problems, the most severe of which is the economy. Between 1968 and 1980, the military government had generally mismanaged the economy to the point of no-growth and near bankruptcy. The legacy which the President must now overcome includes unprofitable state-owned industries, 73 percent inflation (1981), under-employment of about 50 percent, a history of expropriated foreign investment, a devastated agricultural industry, rural flight and severely overcrowded cities. Moreover, Peru is attempting to recover at a time when the world market for its principal exports is severely depressed. The United States, of course, is interested in seeing the government succeed and Peru in 1981 received more U.S. assistance than any other South American country.

The second problem with which President Belaunde must deal is terrorism. Begun approximately a year ago against relatively innocuous targets in the rural province of Ayacucho, terrorist bombings have spread to Lima, increased in severity, and are targeted more broadly against police stations, businesses, and embassies (including the U.S. Embassy). Although few casualties have resulted, it is a worrisome and embarrassing problem for the new civilian government, especially because the military will press hard for effective action, including direct military action.

Third, at least from the perspective of the United States, President Belaunde has the problem of inheriting a military supplied largely

with arms from the Soviet Union. This situation came about at least partially because the United States refused Peru's mid-sixties request to buy F–5 aircraft. Peru turned first to the French and the purchase of Mirage aircraft and eventually to the Soviet Union. With the arms, of course, have come many Soviet advisors. Moreover, the arms involved are sophisticated weapons systems not easily or economically supplied or replaced from other sources.

Finally, Peru has for many years had a contentious dispute with Ecuador over a length of undemarcated boundary. That dispute resulted in armed hostilities in January and February of 1981. Although the military situation is now calm, it remains an important political issue to both countries. Moreover, the United States, along with Brazil, Argentina, and Chile is a guarantor of the Rio Treaty of 1942 which established the border.

Prior to the delegation's visit, Peru was honored by the selection of career Peruvian diplomat, Javier Perez de Cuellar, to become the new Secretary General of the United Nations. The selection was not only a tribute to the individual, but as well to the standing of the Republic of Peru among the community of nations.

I. PERU AND THE UNITED STATES

Primarily because of Peru's recent return to democracy, the delegation and the Administration of President Reagan considered the visit in Peru most important. The delegation, therefore, was honored in having the opportunity twice to visit at length with President Fernando Belaunde. In addition to the range of other subjects, the possibility of an exchange of state visits was discussed on both occasions. The delegation would express the hope that such an exchange could occur in the not too distant future.

It was apparent to the delegation that the United States has a friend in President Belaunde and his government. All the discussions with Peruvian officials were candid and productive, but they were predominantly marked by an aura of goodwill and friendship. For our part, the delegation made it abundantly clear the pleasure of the United States at the election of President Belaunde and the return of Peru to a fully implemented democratic process.

It was for that reason the delegation noted that U.S. economic assistance to Peru exceeded that of any other country in South America. Peruvian officials expressed appreciation for United States assistance particularly with respect to the efficiency and responsiveness of AID programming. They also commented especially on the value of Public Law 480 programs in Peru, of which Peru has the third largest share of Title I loans in the hemisphere and the second largest share of Title II grants in the world. The officials expressed concern for planned cuts in both AID and the Public Law 480 funds for fiscal year 1982.

Commenting on the importance to Peru's economic recovery of infrastructure development programs, one official expressed surprise that the United States had cut back on Export-Import Bank financing, which is of particular significance to Peru's purchase of road

building equipment. He added that the ultimate beneficiaries had been the Germans and the Japanese, who are competitively advantaged by the EXIM cuts. The delegation acknowledged the point and explained the domestic considerations that affect EXIM funding in the stringent economic climate of the United States.

The questions of United States military assistance and arms sales was also discussed at length. The delegation expressed its concern about Peruvian dependence on Soviet spare parts and maintenance for its large inventory of Soviet supplied military equipment. Peruvian officials responded that the inventory purchased between 1968 and 1980 by the military government was indeed a large investment and could not simply be cast aside, particularly considering the favorable financial terms offered by the Soviets.

There are few bilateral issues of significant concern. Recent differences over the sale by the U.S. Government of stockpiled silver have been resolved in Peru's favor with the suspension of the sales. Historic differences over tuna fishing remain, but both parties want to avoid confrontation over the issue and are seeking ways to resolve it amicably.

On another bilateral issue, one clearly irritated Peruvian official raised with the delegation reports in the United States that United States citizens in Peruvian jails on narcotics charges were being mistreated. The reports apparently were stimulated by a hunger strike started on Christmas Day by 9 of 31 U.S. prisoners to protest prison conditions and the length of detention before trial. The official acknowledged that Peruvian jails were not up to U.S. standards and that the judicial process was slow, but that a special effort was being made to clear the docket expeditiously. The official stated that they were engulfed in letters on the situation from Amnesty International, and wondered rhetorically why the organization had not worried about President Belaunde during his imprisonment or exile.

II. PERU AND THE REGION

On Central America, the delegation expressed strongly its belief that the democracies of the hemisphere must act jointly to ensure that Communist influence does not expand in the Central American-Caribbean region. With reference to the imminent potential of Nicaragua, the point was made that problems which are already difficult with just the Soviets and Cubans involved will become even more intractable if the Communists are able to consolidate their position in other countries.

On the specific subject of El Salvador, the delegation was told that Peru supports the March elections and opposes any and all outside intervention. The delegation was also told that the "present level" of U.S. military assistance does not constitute "intervention." Another official noted that he did not accept FDR/FMLN propaganda on the elections and considered their opposition to elections and call for a "negotiated solution" stalling tactics to permit the insurgents to improve their military position.

The delegation queried Peruvian officials on the likelihood of war in South America and whether that prospect was the rationale for Peru's large military. One official responded that the great majority of people in Peru and its neighboring states did not want conflict and he specifically included Ecuador. Nevertheless, he stated that although Peru wanted not one yard of Ecuador's soil and did not constitute a threat to that country, Ecuadorean military purchases had to have an effect on Peru's state of readiness.

The delegation also asked whether, given Peru's own assessment of the low level of threat, some form of regional arms reduction might be possible. Peruvian officials were not optimistic at the prospects. The delegation pressed the point that however bleak the prospects, the effort should be made, and inquired as to which country might be best positioned to take the initiative. The response, though tentative, referenced the precedent of the 1969 Montevideo Initiative and indicated that Mexico might be a possibility.

III. PERU—DOMESTIC CONCERNS

President Belaunde described for the delegation his vision and hopes for the future of Peru and the development of the region in general. He talked of the need to develop Peru's economic infrastructure. He recounted with obvious pride the achievement of a small village, which he recently had visited, in building by its own efforts a road to allow better access to produce markets. He spoke of the need for roads not only to link remote areas of Peru, but to interconnect the vast jungle areas of central South America, and he described the long range promise of inter-linking the Amazon, Plate, and Orinoco Rivers to provide a truly continental system of transportation.

Over the near-term, Peru's needs are more parochial. The democratically elected government needs to demonstrate its ability to deal with pressing economic problems and the measures required to do so are painful. Struggling with both inflation and severe government deficits, the new administration has instituted a value-added tax and is allowing the domestic price of energy to rise gradually to market levels. Noting the political pain that has caused, one senior official remarked that he agreed with the diagnosis and remedy (proposed by the economists) but was concerned about the dosage. The delegation asked whether reduced defense expenditures would be a feasible means of reducing the budget deficit. The response was that the military accounted for a relatively small 18 percent of the budget. Moreover, this official said, the military provides more than defense to the nation in terms of education, technical training and civil works.

The delegation was told that the overall economic program included the divesting of many state-owned enterprises and restoration of free market condition; liberalized international trade, and incentives for foreign investment. During the delegation's visit, the Prime Minister addressed the nation on radio and television and described many of the steps the government was taking to restore the economy. It was a lengthy and aggressive defense of the government's policies against growing criticism and expectation of resurgent inflation.

One bright spot is that tax breaks for oil companies enacted in December of 1980 have already paid the government a handsome return. Recent discoveries have doubled the country's proven oil reserves and production in 1982 should reach 230,000 barrels per day. This will provide Peru over $1 billion in badly needed export earnings.

The other problem that the government cannot allow to get out of hand is terrorism. The delegation was told that the terrorists are poorly organized and have no coherent plan or visible goal. Nor do they, according to Peruvian officials, enjoy any support among the people. At its present level of intensity, it would appear to be a worrisome problem that bears watching, but not a significant threat to the stability of the government.

MEXICO

Tuesday, January 12

1800—Country Team Briefing
2000—Reception, American Businessmen

Wednesday, January 13

1000—President Jose Lopez Portillo
1500—Secretary of Foreign Affairs Jorge Castaneda
1300—Miguel de la Madrid, presidential candidate and former Secretary of Planning and Budget

Introduction

President Reagan entered office with the commitment to improve substantially our relations with both our neighbors in North America, Mexico and Canada. With respect to Mexico, the President has certainly made every effort to achieve an improved relationship and to that end has met with President Lopez Portillo four times, most recently in October at the North/South Summit in Cancun.

It is clear that the two Presidents have established a personal relationship of warmth and mutual respect. Moreover, the relationship between the two countries is fundamentally sound with the framework of a continuing dialogue on a broad range of complex issues that includes migrant labor, supply of oil and natural gas, industrial and agricultural trade, fishing, nuclear cooperation, regional economic development, and regional political stability. The list could be longer, but the essence of it is that the United States and Mexico have a closely inter-related and interdependent relationship borne of proximity, mutual respect, and traditional friendship.

The fact that there are differences between the two countries on some of these issues is not surprising. The fact that the differences over several of the issues are highly visible and contentious sometimes overshadows the fundamental soundness and friendship of the relationship.

There are two issues on which the differences of perspective and opinion contrast most sharply. The first, of long standing, is the respective relationship of the two countries with Cuba. The United States has long opposed Cuban promotion of armed opposition movements in attempts to destabilize its neighbors in the region. Since 1978, these efforts have become particularly aggressive and, in the case of Nicaragua, have proved successful. Mexico has taken a far more benign view of this activity and the Cuban leadership.

The second is the differing perspectives from which the two countries view leftist forces and governments among the countries of the

region. Evident in Mexico's support of the Sandinista insurgents and now government in Nicaragua, the difference in perspectives has been most recently apparent in the support given the rebel forces in El Salvador. In August of 1981, Mexico and France issued a joint communique, which recognizes the FDR/FMLN as a "representative political force" that should participate in the "creation of the necessary mechanisms" for a political solution in El Salvador. The communique thus adopts the rebel position on the March election. On December 7th, the OAS repudiated the Mexico position and formally endorsed the elections with only three members voting against (four abstained).

Domestically, the term of President Lopez Portillo is nearing its end. Elections will be held in July and the new President will be inaugurated in December. The Government party of President Lopez Portillo, the Institutional Revolutionary Party (PRI), has chosen former Secretary of Planning and Budget, Miguel de la Madrid to be its candidate. Since PRI has not lost a national election in its 54-year history, de la Madrid is virtually assured of the presidency. Nevertheless, Mexican presidential candidates campaign vigorously throughout the country. The campaign was well underway during the delegation's visit.

Finally, Mexico's economic problems continue to be frustrating. Oil revenues have allowed the government to pursue a high growth economic strategy in an attempt to industrialize rapidly and create jobs to counter an under-employment percentage approaching 50 percent. The strategy, however, has resulted in high inflation and increasing deficit spending without so far relieving the frustrations of a population with growing but unfulfilled expectations. Moreover, the weakness of the oil market has raised doubts as to whether the high growth rate of the past can be continued.

I. MEXICO, THE UNITED STATES AND THE REGION

Because the relationship between the United States and Mexico is close in so many ways and widely divergent on regionally related issues, the meetings of the delegation with Mexican officials were dominated almost entirely by our efforts to arrive at a clear mutual understanding of the other's position on the region. Each of the discussions began with a recognition by both parties of the need to maintain in a climate of friendship a full and open dialogue on all the issues of mutual concern.

This is especially true, said one official, in the case of Latin America where the United States and Mexico share geopolitical responsibilities. Mexico, he continued, has in recent years, and will continue to have an increasing responsibility to participate in the foreign relations of the region because the world community is beginning to consider Mexico an intermediate power.

Mexico, said one, analyzes the problems of the region by the cause that brought them about, not simply by developing events. He said that as developing countries, the nations of Latin America are following a natural course that inevitably includes economic problems, social problems, and political expressions that cover the range of influence from the United States to the Soviet Union. As is most of the world,

continued the official, Latin America is being crucified between North and South, East and West.

Turning to the specific example of El Salvador, the official noted that the different groups in El Salvador were each trying to find a solution to the problems inherent in all developing countries, but with increasing violence. Mexico has recommended a political solution and believes that no one should be deluded into believing that elections that do not include all the representative parties can be a true political solution.

The same leader also described Nicaragua in terms of Mexico's economic and political model for developing countries. Nicaragua, he said, had been unable to solve the economic problems that would have relieved the political pressures sufficiently to allow the establishment of a pluralistic process. Now Nicaragua is "walled in" and has become the focal point of the East-West struggle for influence and prestige. Many things have happened that have brought the Sandinistas into conflict with the United States, he noted, and with the influx of arms, the opportunity for a political solution is being ruled out. Nicaragua, he concluded, is now a problem between the United States and the Soviet Union.

Asked about Guatemala, he observed that it is a better integrated country; although there is violence, the government is stronger and the violence is less a critical factor than a way of life. Elections are possible, and "there is not the same risk as in El Salvador."

In a parallel discussion, the delegation was told that in these countries of political, social and economic underdevelopment, progress on economic and social development must be in the context of democratic governments. Mexico, said one official, believes that democratic development can be best fostered by the adherence of others to the principle of self-determination, and rejection of any formula of military intervention for the solution of problems.

The delegation agreed that absent extraordinary circumstances, military intervention is inappropriate, particularly in this hemisphere. Why, the delegation asked, does that principle not seem to apply to the military intervention of Cuba in this hemisphere? The reply was that the Mexican Government has no sufficient proof of Cuban military intervention in either El Salvador or Nicaragua.

Returning to the Mexican leader's theme of allowing the developing countries of the region political solutions to their problems, the delegation observed that the Soviet system does not allow developing countries political solutions, and noted the examples of Poland and Afghanistan. In this region, the revolution in Nicaragua was supported by the people, but Nicaragua has not been allowed a "political solution," and the Soviets are now shipping arms to deny a political solution to El Salvador and Guatemala. Recalling that Chile and Argentina had experienced the same process, the delegation observed that it is not merely an expression of the difference between East and West, but between freedom and Marxism. Unless, the delegation concluded, we stop Cuba or reach an accommodation, there will be no chance for "political solutions" in the Western Hemisphere, and no one can ignore that threat, including Mexico.

In responding, the Mexican leader observed that in Mexico, that is not a problem; Mexico has its own ideological solutions that provide political expressions, unless, he added, Mexico becomes the victim of events brought about by larger powers. He went on to say that his use of the term East-West includes the competing ideologies of democracy and Marxism; countries resolve in favor of one or the other as an expression of self-determination. Although he is personally critical of Marxism, his strong belief in the principle of self-determination precludes, he said, the right to impose the choice on another.

The delegation again made the point that ignoring Cuban intervention in the hemisphere was inconsistent with Mexico's own principles. From our perspective, these are countries attempting to assert their own nationhood and Cuba, for the purposes of another's foreign policy, is intervening; if we, the United States and Mexico, allow this, the inevitable result will be greater, not less repression. In reply, the official observed that Mexico does not see the Soviets capable, willing or interested in such intervention, but he acknowledged that events might require Soviet support of other countries in the region.

In each of the delegation meetings, the host official raised the possibility of United States rapprochement with Cuba, and expressed pleasure over the role of Mexico in arranging the recent meeting between Cuban and U.S. officials. It is, one said, a propitious moment for an intelligent solution between the United States and Cuba; if the solution is not peaceful, if Cuba and Nicaragua are put in a corner, the solution will be bloody. The revolution in Cuba, explained one official, was a problem of equality and while that problem was solved, equality is no longer enough and the Cuban people need a solution to the economic problems; there is now a large group of well-educated and trained Cubans who aspire to a higher standard of living than the system can provide. That is a condition, he said, that makes a peaceful solution possible.

Mexico, this official said, can only help with some of the problems in Cuba, mentioning specifically the purchase of Cuban sugar and assisting in the exploration for oil; "when we find oil in Cuba, Cuba will shake off much of the load it is carrying."

The delegation noted its agreement that a favorable solution may not be possible by isolating Cuba. Nevertheless, the delegation was forced to wonder whether the degree of Cuban dependence on the Soviet Union would allow Cuba the freedom to negotiate with the United States in a meaningful fashion. One official acknowledged that it is difficult to conceive, but that it could be done if approached in the same fashion as Nixon approached China, i.e., not ideologically and without attempting to interfere in internal Cuban affairs; seek only an intelligent solution for peace in the region, not the ability to interfere with the rights of the Cuban people.

The official did acknowledge that until there is understanding on a series of matters between the United States and the Soviet Union, no solution for the other countries is possible. No problem, he said, can be solved without the agreement of the great powers.

The delegation concluded each of the meetings by observing that Mexico could play a special role in the hemisphere, but that it will need

to recognize that the Soviet Union does not espouse self-determination and communism does not recognize neutrality. What is needed in the hemisphere is leadership on behalf of freedom and democracy, not referees.

II. MEXICO—DOMESTIC CONCERNS

The principal domestic point of interest during the delegation's visit was the campaign for the presidency. The Institutional Revolutionary Party (PRI), having been in power for fifty years, has a smoothly operating political organization and while there are other candidates, the election is almost a foregone conclusion. Traditionally, the campaign has served the dual function of reaffirming the system and getting the candidate into and known in every part of the country. In a system where the President's powers are extraordinary, the campaign season allows him the opportunity to build a popular base of support among the people, to learn about local problems, and to generate a special aura around his presidency, which will enhance his credibility during his tenure in office.

The campaign this year has not served that purpose, but the delegation was told that that is not a reflection on the candidate but the system. According to some observers, the growing middle class (now 40 and soon 60 percent) is becoming increasingly disenchanted with a political system in which there is so little public participation. President Lopez Portillo apparently recognized this and instituted reforms; but the reforms did not go nearly far enough. This may become significant in the initial period of the next presidency when the government will be required to take politically unpopular measures to reduce inflation and the federal deficit.

The question that remains is how and whether the system evolves. The delegation was offered two possibilities. The first is a continuation of piecemeal change with the ultimate result a true multi-party system. The second is continued resistance to change with the result of a gradually gathering political crisis.

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ANNEX

URUGUAY

The Economy

Uruguay is embarked on an economic reform program to solve three serious economic problems: (1) the loss of traditional markets for its agricultural exports, (2) the excessive costs of traditional social welfare programs, and (3) the prices of imported petroleum products. The government is strongly committed to a free market economy.

A major program of economic reform drawn up in early 1978 provides the goals for the current government. This commits Uruguay to an export-led program of development based on encouraging and diversifying exports, reducing the country's high protection against import competition, decreasing traditionally high inflation, and increasing efficiency and responsibility of government operation. The budget has been balanced the past 2 years.

After several decades of no economic growth, this plan led to sound growth in 1979–80. Largely as a result of a less favorable foreign environment, however, the rate of economic expansion slowed markedly in 1981, with total growth of output for the year estimated at only 2 percent. Uruguayan reserves are more than adequate to meet demand and the government has maintained its policy of a controlled minimal devaluation despite pressures brought on by the economic shocks from neighboring Argentina. There has been some improvement in real wages the past 2 years but growing unemployment and decreasing investment are serious concerns.

Uruguay's principal natural resource is its land, 85 percent of which is suitable for livestock and agricultural production. Of the 39 million acres in use, 15 million are devoted to livestock raising. No significant mineral resources have been developed to date. Petroleum exploration has not been successful. However, major hydroelectric projects are being built.

Wool and meat traditionally account for about 40 percent of total exports. In and around Montevideo, a sizable industrial complex has grown up which is devoted largely to processing the nation's agricultural output.

Because of the small domestic market, Uruguayan industry must look outside if it wishes to expand its production. Uruguay has participated actively in the Latin American Free Trade Association (now ALADI). It now has bilateral trade agreements with Argentina, Brazil, and other neighboring countries which it hopes will open doors to further industrial expansion. There is the view that U.S. trade policies are too restrictive to Uruguayan exports.

Despite prudent management a significant economic upturn is unlikely to occur before the world economy begins to show more buoyancy. Uruguay looks to the United States for a leadership role, particularly for Latin American economic improvement. The depth of the downturn, however, can be mitigated if real interest rates drop. The inflation rate—which dropped 30 percent in 1981—should continue to fall, provided current exchange and monetary policies are maintained. The Uruguayan economic picture is one that suggests a period of slow recovery amid an economic climate of austerity.

Foreign Policy

Flanked by the two most powerful nations in South America, Uruguay traditionally has played a buffer role between Argentina and Brazil. Economically these two countries are Uruguay's largest foreign markets, its primary sources of investment capital and tourist revenues, as well as major competitors for export markets. This triangular relationship is Uruguay's primary foreign policy concern.

Since the Argentine military takeover in 1976, it appears Montevideo has turned toward Buenos Aires, in economic, military, and diplomatic relationships. By contrast, trade problems with Brazil, Uruguay's biggest export market, have multiplied.

Internationally, Uruguay faces a complex and difficult situation. In Europe, considered the largest potential market for its products, Uruguay is hurt by Common Market trade restrictions which have reduced its exports of beef, leather, and wool. Political relations are strained because of sharp European concern over human rights.

Multilaterally, Uruguay has long held that international organizations should be for arbitration, and should strictly observe the doctrine of non-intervention. Active in founding the United Nations, Uruguay is now skeptical about its value. Some of the activities of these organizations are viewed particularly as an intervention in Uruguay's internal affairs.

The inauguration of a friendly new Administration in Washington has been viewed favorably in Uruguay. The United States never had in Uruguay the huge capital investment or intrusive presence which caused resentment elsewhere in Latin America. The first major involvement by the United States began in World War II, when Uruguay was an early recruit to the Allied cause. After the war, the United States became a major supporter of Uruguay's small Armed Forces. Travel and popular culture formed other links. More recently, significant banking and financial ties have developed with the United States, although relatively little trade.

A decade ago, the United States was the major foreign target of the "Tupamaros," and the United States strongly supported Uruguayan efforts to stamp out terrorism. However, as the clampdown extended to democratic and non-subversive groups, the level of U.S. cooperation (during Nixon-Ford years) began to decline. Congressional restrictions were imposed. Under the Carter Presidency, relations became openly confrontational. The government and its supporters bitterly resented our failure to understand Uruguay's grave

terrorist threat and viewed Carter's policy as massive U.S. intrusion into its internal affairs.

This year, President Gregorio C. Alvarez has seized the opportunity—presented by both the overtures of a new U.S. Administration and Uruguay's plans for a return to democratic government—to forge the start of a close and harmonious relationship with the United States. In Uruguay this is seen as a major development.

President Alvarez, in one of his first acts as President, supported Uruguayan participation in the Sinai Multinational Force and Observers, and made known his desire to support U.S. positions in international groups whenever possible. These acts symbolizes a new era of Uruguayan-American cooperation.

The Reagan Administration has supported recent Uruguayan requests for military equipment to upgrade the country's sorely outmoded stocks. The Government of Uruguay has been warned, however, that a continuation of favorable action in the arms field will depend to a great extent on Congressional perception of forward movement in the human rights field and a continuation of steps toward full restoration of democratic institutions.

Political Prospects

Since 1973, Armed Forces politics have been the determining factor in Uruguay. The selection of General Gregorio C. Alvarez by the Junta of General Officers last year and the selection of General Officers this month were major political milestones. During the 1982–85 transition to constitutional rule, the dynamics of the military relations with the politicians will become critical. Political parties have been inactive since 1973. The 1982 internal party elections will signal whether moderate or extremist groups will dominate future leadership.

After 8 years in power, the Uruguayan Armed Forces continue to be the most important political group in the country. There are few pressure groups to counterbalance effectively the military government. The political parties are still divided and unorganized. The Church in Uruguay is practically non-existent as a political force. Nonetheless, the military as an institution has committed itself publicly to return to civilian rule and democratic normalcy by 1985—although maintaining a strong military advisory role and veto power on some issues.

In the past 6 months the Armed Forces have opened a dialogue with the political parties on important legislation governing future party life; have returned formal independence to Judiciary; have liberalized restrictions on the right of assembly and the press; have allowed unions once again to organize; and have returned political rights to all but a handful of non-Marxist political leaders.

The military has announced an accelerated timetable for returning to full participatory democracy, beginning with the election of new political party leaders in November 1982, followed by consultation with these new party authorities on a new Constitution in 1983. National elections are scheduled for late 1984, and President Alvarez has pledged to turn the reins of power over to the people's choice in March 1985.

Future trends will be governed by the combination of: (a) military demands, (b) the President's personal political aspirations, (c) the

instinctive opposition of the political parties, and (d) the economic situation—the threat remains for future social unrest without economic improvement. Parties will become increasingly important in 1982–84, although some key leaders remain proscribed from political activity.

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